Running Up the Score: How to Look Better to Creditors

It's America's newest status symbol: a lofty credit score. Many people are obsessed with boosting their score, with good reason.

Lenders use credit scores to decide whether to lend money and at what rate, landlords look at it before taking on tenants, insurers use it to set premiums and employers factor it into their hiring decisions. Indeed, a decent credit score is a key indicator of financial wellness.

Want to know where you stand? Here's how credit scores are calculated – and how you can make yourself look more creditworthy.

LEARNING THE RULES

Your credit score is a measure of your creditworthiness that's based on the information compiled in your credit reports. Once a year, if you go to www.annualcreditreport.com, you can get a free copy of your credit report from each of the three major credit bureaus, Equifax, Experian and TransUnion.

You might have the sense that your credit score is a single number. But in truth, there's a variety of scores available, including the FICO score, PLUS Score and VantageScore. Moreover, there are different flavors of these scores.

Take the widely used FICO score, which was developed by Fair Isaac Corp. For a fee, you can find out your FICO score. But that version of your FICO score may differ from the version used by, say, auto lenders and credit card companies. In addition, the three credit bureaus may each have different information about you on file, resulting in slight scoring differences.

Still, it's helpful to get a sense of where you stand, especially if you are about to apply for a mortgage or take out a car loan. You can purchase your credit score through a slew of websites. One warning: The credit score you're offered won't necessarily be your FICO score.

WINNING THE GAME

How do you maintain a good credit score – or improve your score if it's bad? Your top priority: Make sure you pay your bills on time. This is likely to be the single biggest factor affecting your credit score.

Next, be careful not to borrow too much. In particular, keep your credit card balances low, especially relative to the credit limits on your cards. Even if you pay off your card balances every month in full, you should try to avoid using more than 20% or 30% of the available credit.

"Your top priority: Make sure you pay your bills on time."

Oddly enough, you also shouldn't be too quick to cancel your credit cards – and that's doubly true if it is a card you have had for many years. If you cancel cards, you will have less credit available to you and it may suddenly look like you are using an uncomfortably high percentage of your total credit limit. And if you cancel older cards, you'll have less credit history, which could make you appear riskier to lenders. You can also ding your credit score by applying for credit too often.

FOR EXTRA CREDIT

- Get a free copy of your credit report at **www.annualcreditreport.com**.
- Purchase your credit score at **www.annualcreditreport.com, www.equifax.com, www.experian.com, www.myfico.com** or **www.transunion.com**.
- Educate yourself on credit issues at **www.credit.com**, gauge your personal exposure to identity theft at **www.idsafety.net** and learn how to freeze your credit at **www.financialprivacynow.org**.
- Got debt problems? Check out the free brochures at **www.consumerlaw.org**.

continued

Meanwhile, you can help your score by using a variety of credit, including not only credit cards, but also installment debt such as auto loans and mortgages. In addition, make a point of checking your credit report every year or so, to see if there are any errors.

Want to ensure your children have a good credit score? Not so long ago, you could help them simply by listing them as authorized users on your credit cards. But the rules are in flux and it isn't clear that will work.

Instead, consider adding your children to one of your credit cards as joint account holders. That way, they will benefit from the card's credit history. Result: Assuming you have been responsible with the card, your kids will be well on their way to a healthy credit score.

711705 NAT08 10/10